REPORT OF INDEPENDENT ACCOUNTANTS

To The Board of Directors and Shareowner of
The Chesapeake and Potomac Telephone Company of Virginia

We have audited the financial statements and the financial statement schedules of The Chesapeake and Potomac Telephone Company of Virginia as listed in the index on page F-1 of this Form 10-K. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Chesapeake and Potomac Telephone Company of Virginia as of December 31, 1991 and 1990, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1991, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information required to be included therein.

As discussed in Notes (1) and (7) to the financial statements, the Company changed its method of accounting for postretirement benefits other than pensions in 1991.

/s/Coopers & Lybrand

Richmond, Virginia
February 5, 1992

STATEMENTS OF INCOME AND REINVESTED EARNINGS

	Dollars in Thousands		
	For the Years Ended December 31,		
	1991	1990	1989
OPERATING REVENUES			
Local service	$ 819,402	$ 798,324	$ 758,600
Network access	520,911	499,037	464,156
Toll service	126,333	126,182	120,341
Directory advertising and other	261,075	242,799	230,688
Provision for uncollectibles	(12,542)	(11,744)	(5,108)
	1,715,179	1,654,598	1,568,677
OPERATING EXPENSES			
Employee costs, including benefits and taxes	384,251	380,819	417,780
Depreciation and amortization	350,561	308,238	273,393
Other	568,574	530,236	495,784
	1,303,386	1,219,293	1,186,957
Net operating revenues	411,793	435,305	381,720
OPERATING INCOME TAXES			
Federal	85,430	94,576	76,421
State	24,389	26,635	24,717
	109,819	121,211	101,138
Operating income	301,974	314,094	280,582
OTHER INCOME (EXPENSE)			
Allowance for funds used during construction	2,871	4,084	5,424
Miscellaneous - net	(1,701)	(2,436)	(1,158)
	1,170	1,648	4,266
INTEREST EXPENSE	87,397	85,430	81,893
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	215,747	230,312	202,955
[redacted]	[redacted]	-	-
NET INCOME (LOSS)	$ (8,336)	$ 230,312	$ 202,955

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF INCOME AND REINVESTED EARNINGS (Continued)

	Dollars in Thousands		
	For the Years Ended December 31,		
	1991	1990	1989
REINVESTED EARNINGS			
At beginning of year	$ 558,047	$ 507,751	$ 493,869
Add: Net income (loss)	(8,336)	230,312	202,955
	549,711	738,063	696,824
Deduct: Dividends	184,381	179,836	188,989
Other changes	15	180	84
At end of year	$ 365,315	$ 558,047	$ 507,751

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS

	Dollars in Thousands	
	December 31, 1991	December 31, 1990
ASSETS		
CURRENT ASSETS		
Accounts receivable:		
Customers and agents, net of allowances for uncollectibles of $15,571 and $7,192	$ 268,950	$ 264,223
Parent and affiliates	24,172	24,717
Other	17,657	17,491
Material and supplies	5,777	8,747
Prepaid expenses	9,153	11,362
Deferred income taxes	18,486	3,528
Deferred charges	55,355	38,906
	399,550	368,974
PLANT, PROPERTY AND EQUIPMENT - at cost		
In service	4,856,327	4,712,766
Under construction and other	93,275	94,320
	4,949,602	4,807,086
Accumulated depreciation	(1,827,125)	(1,722,424)
	3,122,477	3,084,662
DEFERRED CHARGES AND OTHER ASSETS	53,724	45,691
TOTAL ASSETS	$3,575,751	$3,499,327

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS

	Dollars in Thousands	
	December 31, 1991	December 31, 1990
LIABILITIES AND SHAREOWNER'S INVESTMENT		
CURRENT LIABILITIES		
Debt maturing within one year:		
Affiliate	$ 119,800	$ 84,365
Other	2,619	2,077
Accounts payable:		
Parent and affiliates	74,767	45,390
Other	156,661	192,241
Accrued expenses:		
Vacation Pay	27,865	28,375
Interest	18,163	18,229
Taxes	13,525	21,032
Other	31,554	31,917
Advance billing and customer deposits	55,800	49,164
	500,754	472,790
LONG-TERM DEBT	935,387	934,234
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred income taxes	393,571	516,797
Unamortized investment tax credits	102,465	115,127
[redacted]	[redacted]	[redacted]
Other	[redacted]	3,628
	900,610	660,571
CONTINGENCIES		
SHAREOWNER'S INVESTMENT		
Common stock - one share, without par value, owned by parent	873,685	873,685
Reinvested earnings	365,315	558,047
	1,239,000	1,431,732
TOTAL LIABILITIES AND SHAREOWNER'S INVESTMENT	$3,575,751	$3,499,327

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

	Dollars in Thousands For the Years Ended December 31, 1991	1990	1989
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ (8,336)	$230,312	$202,955
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	350,561	308,238	273,393
Cumulative effect of change in accounting principle	224,083	-	-
Provision for uncollectibles	12,542	11,744	5,108
Allowance for funds used during construction	(2,871)	(4,084)	(5,424)
Other noncash items, net	311	145	397
Changes in certain assets and liabilities:			
Accounts receivable	(16,890)	(10,752)	(47,474)
Material and supplies	(803)	6,478	(8,554)
Prepaid expenses	2,209	(3,159)	(127)
Deferred charges and other	(24,482)	(1,232)	4,155
Accounts payable and accrued expenses	(14,649)	(10,983)	73,633
Advanced billing and customer deposits	6,636	(1,245)	2,468
Deferred income taxes	(1,076)	3,826	34,420
Unamortized investment tax credits	(12,662)	(13,128)	(12,144)
Other liabilities	14,736	17,732	2,641
Net cash provided by operating activities	529,309	533,892	525,447
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to plant, property and equipment	(378,924)	(383,413)	(400,924)
Other plant-related changes	629	(10,228)	(635)
Net cash used in investing activities	(378,295)	(393,641)	(401,559)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Additions to long-term debt	-	-	100,000
Principal repayments of capital lease obligations	(2,068)	(2,180)	(2,999)
Net decrease in short-term debt with original maturities of three months or less	-	-	(74,500)
Net increase in note payable to affiliate	35,435	41,765	42,600
Dividends paid	(184,381)	(179,836)	(188,989)
Net cash used in financing activities	(151,014)	(140,251)	(123,888)
NET CHANGE IN CASH	-	-	-
CASH, BEGINNING OF YEAR	-	-	-
CASH, END OF YEAR	$ -	$ -	$ -

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>BASIS OF PRESENTATION</u> - The Chesapeake and Potomac Telephone Company of Virginia (the Company), a wholly-owned subsidiary of Bell Atlantic Corporation (Bell Atlantic), maintains its accounts in accordance with the Uniform System of Accounts (USOA) prescribed by the Federal Communications Commission (FCC) and makes certain adjustments necessary to present the accompanying financial statements in accordance with generally accepted accounting principles applicable to regulated entities. Such principles differ in certain respects from those used by unregulated entities, but are required to appropriately reflect the financial and economic impacts of regulation and the ratemaking process. Significant differences resulting from the application of these principles are disclosed elsewhere in these Notes to Financial Statements where appropriate.

<u>CASH AND CASH EQUIVALENTS</u> - The Company considers all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents.

The Company makes certain payments by draft and records such drafts as accounts payable until such time as the banks have presented them for payment.

<u>MATERIAL AND SUPPLIES</u> - New and reusable materials are carried in inventory, principally at average original cost, except that specific costs are used in the case of large individual items. Nonreusable material is carried at estimated salvage value.

<u>PLANT AND DEPRECIATION</u> - The Company's provision for depreciation is based principally on the remaining life method of depreciation and straight-line composite rates. This method provides for the recovery of the remaining net investment in plant, less anticipated net salvage value, over the remaining service lives authorized by federal and state regulatory authorities. Depreciation expense also includes amortization of certain classes of telephone plant and certain identified depreciation reserve deficiencies over periods authorized by regulatory authorities.

When depreciable plant is replaced or retired, the amounts at which such plant has been carried in plant, property and equipment accounts are removed from the respective accounts and charged to accumulated depreciation, and any gains or losses on disposition are amortized over the remaining service lives of the remaining net investment in telephone plant.

MAINTENANCE AND REPAIRS - The cost of maintenance and repairs of plant, including the cost of replacing minor items not constituting substantial betterments, is charged to operating expense.

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION - Regulatory authorities allow the Company to record an allowance for funds used during construction, which includes both interest and equity return components, as a cost of plant and as an item of other income. Such income is not recovered in cash currently but will be recoverable over the service life of the plant through higher depreciation expense recognized for regulatory purposes.

EMPLOYEE RETIREMENT BENEFITS

PENSION PLANS - Substantially all employees of the Company are covered under noncontributory multiemployer retirement plans sponsored by Bell Atlantic and its subsidiaries, including the Company. Amounts contributed to the Company's pension plans are actuarially determined under the aggregate cost method, and are subject to applicable federal income tax regulations.

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS - Effective January 1, 1991, the Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (Statement No. 106). Statement No. 106 requires accrual accounting for all postretirement benefits other than pensions. Under the prescribed accrual method, the Company's obligation for these postretirement benefits is to be fully accrued by the date employees attain full eligibility for such benefits. Prior to the adoption of Statement No. 106, the cost of health benefits for management retirees was recognized by charging claims to expense as they were incurred. The cost of health benefits for current and future associate retirees was recognized as determined under the aggregate cost actuarial method. The cost of postretirement life insurance benefits was also recognized as determined under the aggregate cost actuarial method.

The Company makes contributions to a retiree health care trust for associate employees. Contributions to the trust are determined principally under the aggregate cost actuarial method and are limited to amounts permitted under Internal Revenue Service (IRS) rules for determining tax-deductible contributions.

The Company annually funds an amount for life insurance benefits that is determined using the aggregate cost actuarial method.

INCOME TAXES - Bell Atlantic and its domestic subsidiaries, including the Company, file a consolidated federal income tax return. The consolidated income tax currently payable is allocated in accordance with each subsidiary's contribution to consolidated taxable income and tax credits.

Deferred income taxes are generally provided to reflect the effect of timing differences on the recognition of revenue and expense for financial and income tax reporting purposes.

The Tax Reform Act of 1986 repealed the investment tax credit (ITC) as of January 1, 1986, subject to certain transitional rules. Realized ITCs were deferred and are being amortized to income over the estimated service lives of the related assets.

RECLASSIFICATIONS - Certain reclassifications of prior years' data have been made to conform to 1991 classifications.

(2) LONG-TERM DEBT

Long-term debt consists principally of debentures issued by the Company. Interest rates and maturities of the amounts outstanding at December 31 are:

	Dollars in Thousands	
	1991	1990
Thirty-nine year 5 1/4%, due 2005	$ 50,000	$ 50,000
Forty year 5 5/8%, due 2007	65,000	65,000
Forty year 6 3/4%, due 2008	70,000	70,000
Thirty-five year 8 5/8%, due 2009	100,000	100,000
Forty year 8 3/4%, due 2010	75,000	75,000
Forty year 7 1/4%, due 2012	50,000	50,000
Forty year 9 1/4%, due 2015	100,000	100,000
Forty year 9 1/2%, due 2019	200,000	200,000
Forty year 8 1/2%, due 2026	125,000	125,000
Forty year 8 3/8%, due 2029	100,000	100,000
	935,000	935,000
Capital lease obligations, average rate 11.76% and 11.39%	11,139	9,728
Unamortized discount and premium - net	(8,133)	(8,417)
	938,006	936,311
Less maturing within one year	2,619	2,077
Total	$935,387	$934,234

Long-term debt outstanding at December 31, 1991 includes approximately $835,000,000 which is callable by the Company. The call prices of these debentures range from 105.7% to 101.7% of face value, depending on the remaining life to maturity of the issue. In addition, long-term debt includes approximately $100,000,000 which will become redeemable only on October 1, 1999 at the option of the security holder. The redemption price of these debentures will be 100.0% of face value plus accrued interest.

On January 21, 1992, the Company issued $100,000,000 of 7 1/8% debentures, due January 15, 2002, and $100,000,000 of 7 7/8% debentures, due January 15, 2022, through a public offering. Neither of the debenture issues are callable at the option of the Company or the holder prior to maturity. The net proceeds from these issues were used to refinance $200,000,000 of 9 1/2% debentures due in 2019, which were redeemed by the Company on February 14, 1992 at a call price equal to 105.7% of the face value of the issue.

The Company has an outstanding shelf registration, filed with the Securities and Exchange Commission (SEC) on April 6, 1990, for the issuance of up to an additional $200,000,000 of debt securities.

(3) DEBT MATURING WITHIN ONE YEAR

Debt maturing within one year consists of the following at December 31:

	Dollars in Thousands			Weighted Average Interest Rates*		
	1991	1990	1989	1991	1990	1989
Note payable to affiliate	$119,800	$ 84,365	$ 42,600	5.02%	7.89%	9.48%
Capital lease obligations	2,619	2,077	2,492			
Total	$122,419	$ 86,442	$ 45,092			
Average amounts of notes payable outstanding during the year*	$114,383	$ 65,036	$ 71,390	6.03%	8.16%	9.61%
Maximum amounts of notes payable at any month-end during the year	$156,217	$109,834	$134,040			

* Amounts represent average daily face amounts of notes. Weighted average interest rates are computed by dividing such amounts into the aggregate related interest expense.

At December 31, 1991, the Company had an unused line of credit balance of [illegible],200,000 with an affiliate, Bell Atlantic Network Funding Corporation. (See Note 12 of Notes to Financial Statements).

(4) ACCOUNTING FOR RESTRUCTURING AND OTHER CHARGES

In 1991, Bell Atlantic and the Company offered a retirement incentive program to eligible management employees electing early retirement. Under this program, approximately 300 employees retired from the Company. As a result, income before cumulative effect of the change in accounting principle for 1991 was reduced by approximately $4,315,000 for special termination benefits and related restructuring costs. These costs are included as operating expenses in the Statement of Income.

In addition to the program offered to management employees, the Company implemented a retirement incentive plan for associate employees. Under this program, approximately 180 associates accepted a lump sum payment based on years of service and retired by the end of December. Income before cumulative effect of accounting change was reduced by approximately $3,720,000 in 1991 for costs associated with this program.

Net income for 1989 was reduced approximately $11,760,000 as a result of costs associated with special severance and enhanced early retirement programs for management employees, and the consolidation of certain Company facilities. These costs are included as operating expenses in the Statement of Income.

As a result of labor negotiations completed in 1989, Bell Atlantic established a retiree health care trust for associate employees of the Company. In connection with the establishment of the trust, the Company changed its method of accounting for postretirement health care benefits for these employees from a pay-as-you-go basis to an actuarially determined accrual basis, effective January 1, 1989. This change in accounting reduced net income for 1989 approximately $11,850,000.

(5) **LEASES**

The Company has entered into both capital and operating leases as lessee for facilities and equipment used in the Company's operations. In 1991, 1990, and 1989, the Company incurred initial capital lease obligations of $3,704,000, $2,275,000, and $7,205,000, respectively.

Total rent expense amounted to $66,803,000 in 1991, $58,968,000 in 1990, and $63,100,000 in 1989.

At December 31, 1991, the aggregate minimum rental commitments under noncancelable leases for the periods shown are as follows:

	Dollars in Thousands	
Years	Capital Leases	Operating Leases
1992	$ 4,112	$ 8,847
1993	2,721	7,015
1994	2,237	5,968
1995	1,716	4,900
1996	2,411	4,507
Thereafter	4,126	9,356
Total	17,323	$ 40,593
Less imputed interest	5,019	
Less executory costs	1,165	
Present value of net minimum lease payments	11,139	
Less current installments	2,619	
Long-term obligation at December 31, 1991	$ 8,520	

(6) INCOME TAXES

The components of operating income tax expense are as follows:

	Dollars in Thousands		
	Years Ended December 31,		
	1991	1990	1989
Federal:			
Current	$105,458	$113,686	$ 65,391
Deferred, net	(7,551)	(5,983)	23,174
Investment tax credits	(12,477)	(13,127)	(12,144)
	85,430	94,576	76,421
State:			
Current	17,913	20,355	13,470
Deferred, net	6,476	6,280	11,247
	24,389	26,635	24,717
Total	$109,819	$121,211	$101,138

Income tax expense (benefit) which relates to non-operating income and expense and is included in Miscellaneous - net was ($572,000), ($1,202,000), and $232,000 in 1991, 1990, and 1989, respectively. The deferred tax benefit related to the cumulative effect of the change in accounting principle was $137,108,000 in 1991.

The components of deferred income tax expense (benefit) are as follows:

	Dollars in Thousands		
	Years Ended December 31,		
	1991	1990	1989
Accelerated depreciation	$ 9,776	$ 11,867	$ 38,753
Employee benefits	(2,244)	(7,460)	(2,213)
Other, net	(8,607)	(4,110)	(2,119)
Total	$ (1,075)	$ 297	$ 34,421

The provision for income taxes varies from the amount computed by applying the statutory federal income tax rate to income before provision for income taxes and cumulative effect of accounting change. The difference is attributable to the following factors:

	Years Ended December 31,		
	1991	1990	1989
Statutory federal income tax rate	34.0%	34.0%	34.0%
Investment tax credits	(3.8)	(3.7)	(3.8)
State income taxes, net of federal income tax benefits	4.9	5.0	5.4
Benefit of rate differential applied to reversing timing differences	(3.1)	(3.0)	(3.0)
Reversal of previously capitalized taxes and payroll-related construction costs ..	1.3	1.7	1.9
Prior years' tax adjustments	-	-	(2.0)
Other, net	.3	.3	.8
Effective income tax rate before cumulative effect of accounting change ..	33.6%	34.3%	33.3%

As a result of the adoption, effective January 1, 1988, of the revised USOA prescribed by the FCC, deferred taxes must be provided for interstate ratemaking purposes on all future book/tax timing differences. Prior to 1988, the Company did not record deferred taxes on timing differences for which deferred tax expense was not allowed for ratemaking purposes.

The cumulative net amount of income tax timing differences for which deferred taxes have not been provided pursuant to the ratemaking process was approximately $83,856,000 and $96,261,000 at December 31, 1991 and 1990, respectively. These timing differences principally relate to the allowance for funds used during construction and certain taxes and payroll-related construction costs which were capitalized for financial statement purposes, but were deducted currently for income tax purposes, net of applicable depreciation.

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (Statement No. 109), in February 1992. The Company will be required to adopt Statement No. 109 by 1993. Statement No. 109 will require the calculation of deferred taxes using the liability method. Under the liability method, deferred tax balances must be adjusted to reflect enacted changes in income tax rates, and deferred taxes must be provided on all book/tax basis differences.

Presently, deferred taxes are recorded at income tax rates that were in effect at the time the related timing difference arose. In addition, regulated companies only record deferred taxes on timing differences which regulators recognize in the ratemaking process. Since regulators have not changed the manner in which these tax effects are treated for ratemaking purposes, when Statement No. 109 is adopted, the income effects of the required adjustments to deferred tax balances will be recorded on the balance sheet as regulatory assets or liabilities in accordance with Statement of Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," (Statement No. 71). Absent changes in the regulatory treatment of deferred taxes, there will be no material impact on net income upon adoption of Statement No. 109.

Prior to 1984, the Company was included in AT&T's consolidated federal income tax returns. These returns have been examined by the IRS, and all issues, including the summary assessment issue discussed below, have been settled.

During 1987, the IRS made a summary assessment requiring Bell Atlantic's telephone subsidiaries to pay a total of approximately $65,000,000 in tax and interest related to certain contested issues for the years 1979 and 1980. This payment ($9,600,000 of which was the Company's share) has been recorded as a current deferred charge. In January 1992, the Company was officially notified that the IRS has decided the issues as proposed by Bell Atlantic, and a refund of the summary assessment is expected in 1992.

(7) EMPLOYEE RETIREMENT BENEFITS

PENSION PLANS - Substantially all of the Company's management and associate employees are covered under noncontributory, multiemployer pension and death benefit retirement plans sponsored by Bell Atlantic and the Company. The pension benefit formula is based on a flat dollar amount per year of service according to job classification under the associate plan and a stated percentage of adjusted career average income under the plans for management employees. The Company's objective in funding the plans is to accumulate funds at a relatively stable rate over participants' working lives so that benefits are fully funded at retirement. Plan assets consist principally of investments in domestic and nondomestic corporate equity securities, U.S. Government and corporate debt securities, and real estate.

Aggregate pension costs for the plans are as follows:

	Dollars in Thousands		
	Years ended December 31,		
	1991	1990	1989
Current year cost	$13,729	$14,689	$14,999
Percentage of salaries and wages ..	4.0%	4.2%	4.2%

The decrease in pension cost from 1990 to 1991 was primarily due to changes in plan provisions, actuarial assumptions and demographic and investment experience. During 1991, the Company offered a retirement incentive program to eligible management and associate employees electing early retirement. Special termination benefits of approximately $674,000 attributable to the management employees retiring in 1991 under this program partly offset the decrease in pension cost.

The decrease in pension cost from 1989 to 1990 was primarily due to reductions in the number of employees due to restructure and the force management program of 1989, offset by changes in plan provisions, actuarial assumptions and demographic and investment experience.

Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" (Statement No. 87), requires a comparison of the actuarial present value of projected benefit obligations with the fair value of plan assets, the disclosure of the components of net periodic pension cost and a reconciliation of the funded status of the plans with amounts recorded on the balance sheet. Such disclosures are not presented for the Company because the structure of the Bell Atlantic plans does not allow for the determination of this information on an individual company basis.

The assumed discount rate used to measure the projected benefit obligation was 7.75% at December 31, 1991 and 8.0% at December 31, 1990. The assumed rate of future increases in compensation levels was 5.25% at December 31, 1991 and 1990. The expected long-term rate of return on plan assets was 7.5% for 1991, 1990 and 1989.

The Company has, in the past, entered into labor negotiations with the unions representing certain employees and expects to do so in the future. Pension benefits have been included in these negotiations and improvements in benefits have been made from time to time. Additionally, the Company has amended the benefit formula under pension plans maintained for its management employees. Expectations with respect to future amendments to the Company's pension plans have been reflected in determining the Company's pension cost under Statement No. 87.

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS - Effective January 1, 1991, the Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," (Statement No. 106). Statement No. 106 requires accrual accounting for all postretirement benefits other than pensions. Under the prescribed accrual method, the Company's obligation for these postretirement benefits is to be fully accrued by the date the employees attain full eligibility for such benefits. Prior to the adoption of Statement No. 106, the cost of health benefits for management retirees was recognized by charging claims to expense as they were incurred. The cost of health benefits for current and future associate retirees was recognized as determined under the aggregate cost actuarial method. The cost of postretirement life insurance benefits was also recognized as determined under the aggregate cost actuarial method.

In conjunction with the adoption of Statement No. 106, for financial reporting purposes, the Company elected to immediately recognize the accumulated postretirement benefit obligation for current and future retirees, net of the fair value of plan assets and recognized postretirement benefit costs (transition obligation) in the amount of $361,191,000, net of income taxes of $137,108,000. On December 26, 1991, the FCC released an order permitting adoption of Statement No. 106 on or before January 1, 1993. The FCC order permits amortization of the transition obligation over the average remaining service period of active employees for interstate regulatory accounting purposes. Pursuant to Statement No. 71, a regulatory asset associated with the recognition of the transition obligation was not recorded because of uncertainties as to the timing and extent of recovery given the Company's assessment of its long-term competitive environment. On January 21, 1992, the Virginia State Corporation Commission (SCC) issued an order directing notice and inviting comments concerning the proper intrastate ratemaking treatment to be accorded Statement No. 106.

Substantially all of the Company's management and associate employees are covered under postretirement health and life insurance benefit plans sponsored by Bell Atlantic and certain of its subsidiaries, including the Company. The determination of postretirement benefit costs for postretirement health benefit plans is based on comprehensive hospital, medical, surgical and dental benefit provisions. The postretirement life insurance benefit formula used in the determination of postretirement benefit cost is primarily based on annual basic pay at retirement.

The Company funds for postretirement health benefits for associate employees and postretirement life insurance benefits for associate and management employees. The Company's objective in funding these plans is to accumulate funds at a relatively stable rate over participants' working lives so that benefits are fully funded at retirement. Plan assets consist principally of investments in domestic and nondomestic corporate equity securities, and U.S. Government and corporate debt securities.

In 1991, the aggregate cost of postretirement health and life insurance benefits was $29,327,000.

Statement No. 106 requires a comparison of the actuarial present value of the accumulated postretirement benefit obligation with the fair value of plan assets, the disclosure of the components of the net periodic postretirement benefit cost, and a reconciliation of the funded status of the plans with the amount recorded on the balance sheet. Such disclosures are not presented for the Company because the structure of the Bell Atlantic plans does not allow for the determination of this information on an individual company basis.

The assumed discount rate used to measure the accumulated postretirement benefit obligation was 7.75% at December 31, 1991 and 8.0% at January 1, 1991. The assumed rate of future increases in compensation levels was 5.25% at December 31, 1991. The expected long-term rate of return on plan assets was 7.5% for 1991. The medical cost trend rate in 1991 was approximately 15.0%, grading down to an ultimate rate in 2003 of approximately 5.0%. The dental cost trend rate in 1991 and thereafter is approximately 4.0%.

Certain postretirement benefits other than pensions have been included in labor negotiations described above, and such benefits have been modified from time to time. Additionally, the Company has amended the benefits under postretirement benefit plans maintained for its management employees. Expectations with respect to certain future amendments to the Company's postretirement benefit plans have been reflected in determining the Company's postretirement benefit cost under Statement No. 106.

During 1990 and 1989, the cost of postretirement health care benefits was $25,366,000 and $31,114,000, respectively. In addition, the Company recognized postretirement life insurance benefit costs of $434,000 in 1990 and $1,194,000 in 1989.

(8) REGULATORY MATTERS

In August 1990, the Company made its first Annual Information Filing required by the Experimental Plan for Alternative Regulation of Virginia Telephone Companies. The SCC audited the cost allocations used to develop the filing, and its Staff approved revised cost methodologies. The Experimental Plan will be reviewed by the SCC in 1992 to determine whether modifications to it are necessary.

Effective January 1, 1991, the SCC approved the Company's request to amortize the deficiency in its accumulated depreciation reserve. As a result, approximately $33,500,000 in additional depreciation expense was recognized in 1991 to help eliminate this reserve deficiency. The remainder of this deficiency will be amortized in 1992.

(9) SUPPLEMENTAL CASH FLOW AND ADDITIONAL FINANCIAL INFORMATION

	Dollars in Thousands		
	1991	1990	1989
Supplemental cash flow information:			
Interest paid	$ 85,898	$ 82,661	$ 77,631
Income taxes paid	$131,452	$112,623	$ 94,018
Additional financial information:			
Depreciation as a percentage of average depreciable plant	7.31%	6.74%	6.31%
Other operating taxes:			
Property	$36,437	$34,526	$32,267
Gross receipts	7,662	7,416	7,212
Other	2,218	444	768
Total	$46,317	$42,386	$40,247
Interest expense:			
Interest on long-term debt	$79,636	$78,911	$72,415
Interest on note payable to affiliate	6,893	5,352	6,117
Interest on other notes payable	-	-	746
Other	868	1,167	2,615
Total	$87,397	$85,430	$81,893

For the years ended December 31, 1991, 1990, and 1989, revenues generated from services provided to AT&T, principally network access, billing and collection and sharing of network facilities, comprised approximately 15%, 16%, and 17%, respectively, of total operating revenues.

The Company provides billing and collection services to interexchange carriers (IXCs). To provide these services, the Company and the IXCs enter into contracts under which the Company purchases the related customer accounts receivable. The largest purchaser of this service is AT&T. At December 31, 1991 and 1990, accounts receivable included $42,[illegible]47,000 and $47,935,000, respectively, (net of allowances for uncollectibles) of such receivables purchased from AT&T. Accounts payable include corresponding amounts owed to AT&T for such receivables.

Financial instruments that potentially subject the Company to concentrations of credit risk consist of trade receivables with AT&T, as noted above. Credit risk with respect to other trade receivables is limited due to the large number of customers included in the Company's customer base.

The amounts of drafts outstanding at December 31, 1991 and 1990 which were included in accounts payable were $1,165,000 and $7,927,000, respectively. At December 31, 1991 and 1990, $11,102,000 and $37,646,000, respectively, of negative cash balances were classified as accounts payable.

(10) QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarter	Total Operating Revenues	Net Operating Revenues	Income Before Cumulative Effect of Change in Accounting Principle	Net Income (Loss)
	Dollars in Thousands			
1991				
1st	$ 423,952	$117,186	$ 61,801	$(162,282)
2nd	428,133	110,712	58,191	58,191
3rd	434,171	111,035	58,030	58,030
4th	428,923	72,860	37,725	37,725
Total	$1,715,179	$411,793	$215,747	$ (8,336)
1990				
1st	$ 403,232	$110,580	$ 59,028	$ 59,028
2nd	412,854	103,941	54,374	54,374
3rd	416,617	110,065	60,099	60,099
4th	421,895	110,719	56,811	56,811
Total	$1,654,598	$435,305	$230,312	$230,312

Results of operations for the first three quarters of 1991 have been restated for the effect of the adoption of Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." (See Note 7 of Notes to Financial Statements). As a result of the restatement, net operating revenues decreased $2,197,000, $2,201,000 and $2,205,000 and income before cumulative effect of change in accounting principle decreased $1,363,000, $1,366,000 and $1,368,000 for the quarters ended March 31, June 30 and September 30, 1991, respectively.

(11) LITIGATION AND CONTINGENCIES

The Company is a party to antitrust actions and various other claims, legal actions and complaints arising in the ordinary course of business.

In the opinion of management, any monetary liability or financial impact to which the Company might be subject after final adjudication or settlement of these matters would not be material to the Company's financial position.

(12) TRANSACTIONS WITH AFFILIATES

The Company has contractual arrangements with an affiliated company, Bell Atlantic Network Services, Inc. (NSI) for the provision of various centralized corporate, administrative, planning, financial and other services. These arrangements serve to fulfill the common needs of Bell Atlantic's operating telephone companies on a centralized basis rather than duplicate efforts in each company. In connection with these services, the Company recognized approximately $262,288,000, $236,652,000, and $176,656,000 in operating costs for the years ended December 31, 1991, 1990, and 1989, respectively. In 1991, these charges included $6,962,000 associated with NSI's adoption of Statement No. 106. In addition, the Company recognized $70,400,000, representing the Company's proportionate share of NSI's accrued transition obligation under Statement No. 106. Also included in these costs were $24,395,000 in 1991, $22,415,000 in 1990, and $20,656,000 in 1989 billed to NSI and allocated to the Company by Bell Communications Research, Inc., another affiliated company owned jointly by the seven regional holding companies.

The Company has a contractual agreement with another affiliated company, Bell Atlantic Network Funding Corporation (BANFC), for the provision of short-term financing and cash management services. BANFC issues commercial paper and secures bank loans to fund the working capital requirements of the operating telephone companies and NSI and invests funds in temporary investments on their behalf. In connection with this arrangement, the Company recognized interest expense of $6,893,000 and $5,352,000 in 1991 and 1990, respectively.

The Company received $15,589,000 in rent revenues from and paid $33,232,000 in rent expense to affiliated companies as a result of various intercompany billing arrangements in 1991. These amounts were $11,581,000 and $24,074,000, respectively, in 1990, and $7,583,000 and $24,935,000, respectively, in 1989.

On January 31, 1992, the Company declared a dividend in the amount of $41,957,000 payable to Bell Atlantic on January 31, 1992.

THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY OF VIRGINIA

SCHEDULE V - PLANT, PROPERTY AND EQUIPMENT

FOR THE YEAR ENDED DECEMBER 31, 1991

(Dollars in Thousands)

Col. A	Col. B	Col. C.	Col. D	Col. E	Col. F
Classification	Balance at Beginning of Period	Additions at Cost -Note(a)	Retirements -Note(b)	Other Changes -Note(d)	Balance at End of Period
Land	$ 13,428	$ 30	$ 2	$ 8	$ 13,464
Buildings	241,127	15,674	2,251	(10)	254,540
Central Office Equipment	1,845,596	215,049	146,452	(843)	1,913,350
Telephone Instruments and Related Equipment	78,770	11,041	6,761	729	83,779
Pole Lines	71,897	3,556	1,968	2	73,487
Cable and Wiring	1,927,091	101,050	61,610	(460)	1,966,071
Conduit	271,023	12,023	2,414	(36)	280,596
Office Equipment and Furniture	145,732	15,758	12,462	(145)	148,883
Vehicles and Other Work Equipment	81,169	10,230	6,524	94	84,969
Other	36,933	5,916	5,664	3	37,188
Total In Service (c)	4,712,766	390,327	246,108	(658)	4,856,327
Plant Under Construction	93,414	(1,456)	72	-	91,886
Other	906	554	64	(7)	1,389
Total Plant, Property and Equipment	$4,807,086	$389,425	$246,244	$ (665)	$4,949,602

The notes on page F-28 are an integral part of this schedule.

THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY OF VIRGINIA

SCHEDULE V - PLANT, PROPERTY AND EQUIPMENT

FOR THE YEAR ENDED DECEMBER 31, 1990

(Dollars in Thousands)

Col. A	Col. B	Col. C.	Col. D	Col. E	Col. F
Classification	Balance at Beginning of Period	Additions at Cost -Note(a)	Retirements -Note(b)	Other Changes -Note(d)	Balance at End of Period
Land	$ 12,965	$ 469	$ 2	$ (4)	$ 13,428
Buildings	230,026	12,045	1,069	125	241,127
Central Office Equipment	1,730,235	218,511	106,057	2,907	1,845,596
Telephone Instruments and Related Equipment	71,566	10,771	4,039	472	78,770
Pole Lines	69,997	3,586	1,697	11	71,897
Cable and Wiring	1,849,295	111,824	37,057	3,029	1,927,091
Conduit	251,703	20,128	703	(105)	271,023
Office Equipment and Furniture	132,673	23,405	10,250	(96)	145,732
Vehicles and Other Work Equipment	73,288	13,138	5,278	21	81,169
Other	41,206	3,760	6,840	(1,193)	36,933
Total In Service (c)	4,462,954	417,637	172,992	5,167	4,712,766
Plant Under Construction	119,258	(25,843)	1	-	93,414
Other	1,324	(205)	213	-	906
Total Plant, Property and Equipment	$4,583,536	$391,589	$173,206	$ 5,167	$4,807,086

The notes on page F-28 are an integral part of this schedule.

THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY OF VIRGINIA

SCHEDULE V - PLANT, PROPERTY AND EQUIPMENT

FOR THE YEAR ENDED DECEMBER 31, 1989

(Dollars in Thousands)

Col. A	Col. B	Col. C.	Col. D	Col. E	Col. F
Classification	Balance at Beginning of Period	Additions at Cost -Note(a)	Retirements -Note(b)	Other Changes -Note(d)	Balance at End of Period
Land	$ 12,778	$ 207	$ -	$ (20)	$ 12,965
Buildings	217,855	13,005	2,830	1,996	230,026
Central Office Equipment	1,620,358	190,424	78,844	(1,703)	1,730,235
Telephone Instruments and Related Equipment	66,001	9,900	4,714	379	71,566
Pole Lines	68,208	3,033	1,289	45	69,997
Cable and Wiring	1,764,698	104,983	20,316	(70)	1,849,295
Conduit	233,949	18,230	464	(12)	251,703
Office Equipment and Furniture	122,372	16,895	6,532	(62)	132,673
Vehicles and Other Work Equipment	66,917	10,328	4,017	60	73,288
Other	38,055	3,112	3,648	3,687	41,206
Total In Service (c)	4,211,191	370,117	122,654	4,300	4,462,954
Plant Under Construction	75,901	41,861	10	1,506	119,258
Other	909	743	328	-	1,324
Total Plant, Property and Equipment	$4,288,001	$412,721	$122,992	$ 5,806	$4,583,536

The notes on page F-28 are an integral part of this schedule.